Consolidated Statement of Earnings

Carter Hawley Hale Stores, Inc.

(In thousands, except per share data)	*Year Ended* *July 29, 1989*	*July 30, 1988*	*August 1, 1987* *(unaudited)*	*Twenty-six Week Period Ended* *August 1, 1987*	*Year Ended* *January 31, 1987*
Sales	$2,787,393	$2,617,143	$2,869,205	$1,164,338	$2,995,977
Cost of goods sold, including occupancy and buying costs	2,001,188	1,879,664	2,163,005	919,764	2,168,653
Selling, general, and administrative expenses	607,441	587,869	732,863	349,185	685,680
Gain on sale of shopping center interest		30,000			
Costs of operational and facility realignment programs		28,500	15,700	15,700	
Loss on sale of John Wanamaker			6,200	4,000	2,200
Direct restructuring costs			40,750	15,750	25,000
Other restructuring costs			7,400	7,400	
Nonrecurring costs of buying office closure	6,000				
Earnings (loss) from continuing operations before interest expense and income taxes	172,764	151,110	(96,713)	(147,461)	114,444
Interest expense	160,344	135,600	67,370	28,134	82,915
Earnings (loss) from continuing operations before income taxes	12,420	15,510	(164,083)	(175,595)	31,529
Income taxes	5,000	6,200	(48,800)	(68,300)	26,500
Earnings (loss) from continuing operations	7,420	9,310	(115,283)	(107,295)	5,029
Discontinued operations, net of income taxes of $(28,350), $(56,800), and $38,900			(34,115)	(63,578)	42,586
Earnings (loss) before extraordinary costs and cumulative effect of changes in accounting	7,420	9,310	(149,398)	(170,873)	47,615
Extraordinary costs relating to early retirements of debt, net of income tax benefits of $6,200, $1,210, $28,804, and $28,804	(9,250)	(1,750)	(29,253)		(29,253)
Cumulative effect of changes in accounting					
Income taxes	15,300				
Capitalization of inventory costs, net of income tax expense of $10,440		10,100			
Expensing of computer software development costs, net of income tax benefit of $15,505					(14,148)
Net earnings (loss)	$ 13,470	$ 17,660	$ (178,651)	$ (170,873)	$ 4,214
Earnings (loss) per common share					
Continuing operations	$ .34	$ .33	$ (7.24)	$ (6.06)	$ (1.23)
Discontinued operations			(1.70)	(3.15)	2.10
Extraordinary costs	(.42)	(.08)	(1.46)		(1.44)
Changes in accounting					
Income taxes	.70				
Capitalization of inventory costs		.47			
Expensing of computer software development costs					(.70)
	$ .62	$ .72	$ (10.40)	$ (9.21)	$ (1.27)

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Balance Sheet

Carter Hawley Hale Stores, Inc.

(In thousands)	*July 29, 1989*	*July 30, 1983*
Assets		
Current assets		
Cash	$ 27,527	$ 24,643
Accounts receivable, net	746,305	473,826
Merchandise inventories	562,514	536,656
Deferred income taxes		11,825
Other current assets	31,568	27,833
	1,367,914	1,074,783
Property and equipment, net	560,976	535,661
Other assets	59,475	61,178
	$1,988,365	$1,671,622
Liabilities and Shareholders' Equity		
Current liabilities		
Current installments	$ 3,575	$ 4,364
Accounts payable	309,346	306,846
Accrued liabilities	162,228	177,648
Current income taxes	10,685	12,867
Deferred income taxes	8,773	
	494,607	501,725
Receivables based financing	652,432	351,000
Other long-term debt	878,421	826,248
Capital lease obligations	78,244	83,168
Other liabilities	57,537	62,042
Deferred income taxes	38,741	77,630
Shareholders' equity		
Common stock, $.01 par value	230	226
Other paid-in capital	[illegible]6,449	581,349
Accumulated defici[illegible]	([illegible],296)	(811,766)
	(211,[illegible]7)	(230,191)
	$1,988,3[illegible]	$1,671,622

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Statement of Cash Flows

(In thousands)	*Year Ended* *July 29, 1989*	*July 30, 1988*	*August 1, 1987* *(unaudited)*	*Twenty-six Week Period Ended* *August 1, 1987*	*Year Ended* *January 31, 1987*
Operating activities					
Earnings (loss) from continuing operations	$ 7,420	$ 9,310	$(115,283)	$(107,295)	$ 5,029
Depreciation and amortization	52,956	51,829	57,851	24,311	55,285
Gain on sale of shopping center interest		(30,0[illegible])			
Deferred income taxes	(2,947)	(22,9[illegible])	(14,664)	(48,602)	26,320
Loss on sale of John Wanamaker, net			6,700		6,700
Change in operating assets and liabilities					
Accounts receivable, net	(272,479)	72,993	(111,893)	(26,123)	21,715
Merchandise inventories	(25,858)	(103,790)	116,451	65,058	52,315
Accounts payable and accrued liabilities	(12,920)	40,149	150,250	80,305	(48,091)
Other, net	(22,404)	8,279	(19,049)	(5,361)	(24,831)
Net cash provided (used) by					
Continuing operations	(276,232)	25,870	70,363	(17,707)	94,442
Discontinued operations			(72,660)	69,077	(131,464)
	(276,232)	25,870	(2,297)	51,370	(37,022)
Investment activities					
Purchases of property and equipment	(75,849)	(80,205)	(65,841)	(15,034)	(89,647)
Sales of property and equipment	4,892	2,199	27,487	25,732	6,839
Sale of shopping center interest		32,000			
Elimination of John Wanamaker properties			80,243		80,243
Change in specialty store investment			(37,620)	(196,867)	212,588
Net cash provided (used) by investment activities	(70,957)	(46,006)	4,269	(186,169)	210,023
Financing activities					
Increase (decrease) in receivables based financing	301,432	202,000	(112,000)	(42,000)	(70,000)
Other issuances of long-term debt	87,215	798,630			
Increase (decrease) in notes payable	(27,000)	(510,000)	447,500	8,000	529,000
Retirements of long-term debt and capital lease obligations	(13,755)	(115,054)	(467,268)	(21,437)	(544,303)
Costs relating to early retirements of long-term debt, net of items not requiring cash outlay	(974)	(1,750)	(23,173)		(23,173)
Net change in debt allocated to the specialty store divisions			175,392	199,639	(26,931)
Issuances of common stock	3,155	4,587	22,859	13,593	14,894
Restructuring dividend		(346,464)			
Common and preferred stock dividends		(2,055)	(48,375)	(21,155)	(54,255)
Net cash provided (used) by financing activities	350,073	29,894	(5,065)	136,640	(174,768)
Net increase (decrease) in cash	2,884	9,758	(3,093)	1,841	(1,767)
Cash at the beginning of the period	24,643	14,885	17,978	13,044	14,811
Cash at the end of the period	$ 27,527	$ 24,643	$ 14,885	$ 14,885	$ 13,044

See accompanying Summary of Significant Accounting Policies and Financial Review.

(In thousands)	Common Stock Shares	Common Stock Par Value	Other Paid-in Capital	Accumulated (Deficit) Earnings
Balance, February 1, 1986	19,559	$ 97,797	$149,957	$ 111,600
Net earnings				4,214
Cash dividends				
Common Stock ($1.22 per share)				(24,255)
Redeemable preferred stock				(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan	67	337	2,057	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan	97	485	3,040	
Issuance of common stock to Profit Sharing Plan	10	50	303	
Exercise of stock options	296	1,479	6,602	
Conversion of convertible debentures	13	65	476	
Balance, January 31, 1987	20,042	100,213	162,435	61,559
Net loss				(170,873)
Cash dividends				
Common stock ($.305 per share)				(6,155)
Redeemable preferred stock				(15,000)
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan	31	152	1,546	
Exercise of stock options	147	738	5,062	
Conversion of convertible debentures	147	734	5,361	
Balance, August 1, 1987	20,367	101,837	174,404	(130,469)
Net earnings				17,660
Cash dividends on redeemable preferred stock				(2,055)
Restructuring dividend of $17 per share				(346,464)
Change in common stock par value		(101,633)	101,633	
Conversion of redeemable preferred stock to common and preferred stock of The Neiman Marcus Group			298,987	
Distribution of net assets of The Neiman Marcus Group				(350,438)
Issuance of common stock under stock incentive plan	1,827	18	24,620	
Stock incentive plan contra*			(22,869)	
Exercise of stock options and other stock conversions	398	4	4,574	
Balance, July 30, 1988	22,592	226	581,349	(811,766)
Net earnings				13,470
Stock incentive plan contra*			2,042	
Exercise of stock options and other stock issuances	468	4	3,058	
Balance, July 29, 1989	23,060	$ 230	$586,449	$(798,296)

*Other Paid-in Capital is net of notes receivable and unamortized costs relating to the Company's current stock incentive plan (see Employee Stock Incentive Plans note in the Financial Review).
See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale

1989 Annual Report

To Our Shareholders:

We are pleased to report another year of growth in sales and operating profit for Carter Hawley Hale. Sales for the year were $2,787.4 million, a 6.5 percent improvement over the $2,617.1 million recorded in 1988. On a comparative store basis, sales increased 5.6 percent for the year.

Operating profit grew by 14 percent to $172.8 million compared with $151.1 million in 1988. Since 1984 the operating profit of our department stores has increased at a compounded growth rate of 23 percent.

Net earnings in both years were impacted by a number of special items and were $13.5 million, or $.62 per share, in 1989 compared with $17.7 million, or $.72 per share in the prior fiscal year.

During the year, our strategic investment programs continued, including efforts to enhance customer satisfaction, accelerate store modernization, and improve asset management. These programs are laying the foundation for our profit growth in the 1990's.

Customer satisfaction continues to be our number one priority. In the last few years, we have expanded the amount of training our sales associates receive and have introduced programs to broaden their selling skills and product knowledge. We have also purified job responsibilities and streamlined operational procedures so that sales associates can devote more time to customers. And we are one of the first department stores to have all sales associates on an individual incentive program.

We are now going beyond these initial steps and tapping the creative spirit of our store associates, allowing them to have greater control over their business. The store managers have been innovative in their approach to changing the way we do things, and our customers are responding positively.

Store modernization continues to be a top priority and to receive a high percentage of our capital dollars. During the past year we completed work on space reallocation and remodeling, better lighting and fixtures, and in some cases exterior refurbishing.

The company's innovative asset management continued through the establishment of a credit card receivables securitization facility, consolidation of certain common distribution activities within the corporate office, and the leveraging of our systems capabilities.

Significant Transactions

During the second quarter we established a $700 million credit card receivables securitization facility. This facility allows us to finance customer receivables on favorable terms to the company. It also provides more flexibility and efficiency in our borrowings by matching financing requirements with peak seasonal needs.

Late in the year the company announced that it would be joining Associated Merchandising Corporation, an independent retail consulting, marketing, and merchandising organization. AMC is the premier membership merchandising group in the retail industry. It gives us greater domestic market coverage and research capabilities along with access to an integrated network of 26 buying offices around the world. The association with AMC should materially strengthen our company going forward. At the same time we will continue to develop and grow our successful private label business through a dedicated Market Service staff headquartered within AMC's offices in New York.

Executive Changes

Several significant executive appointments took place during the year. Martin M. Kalkstein, president and chief executive officer at The Broadway–Southwest, was promoted to chairman and chief executive officer, and Thomas E. Dokter, formerly executive vice president merchandising at The Broadway–Southern California, was named to succeed Mr. Kalkstein as president. This planned transition was then later completed during the year when Mr. Kalkstein joined the corporate office as an executive vice president with responsibilities in the merchandising area and Mr. Dokter assumed the duties of chief executive officer at The Broadway–Southwest.

We were also fortunate to have Robert J. Rieland join the company as president and chief executive officer at Thalhimers. Prior to joining the company, Mr. Rieland was president and chief executive officer of Richmond-based Miller and Rhoads, Inc. William B. Thalhimer, Jr. continues to serve as chairman of Thalhimers.

After the close of the fiscal year we announced that Gregory C. Crews, formerly president and chief executive officer at Market Services, was appointed president of Weinstocks.

At the corporate office, Theodore J. Cotti, formerly vice president human resource development, was promoted to senior vice president human resource development. Patricia Paolilli, formerly the director of the Center for Education, was promoted to vice president executive development. And Dwight L. Totten, formerly director of operations, planning, and engineering, was promoted to vice president operations support.

In closing, I would like to take this opportunity to thank my 37,000 associates, many of whom are shareholders of Carter Hawley Hale, for their efforts and dedication during the past year. Their enthusiasm and abilities will enable us to become the leading provider of customer satisfaction in the department store industry during the coming decade, and will provide the stimulus for the future growth of the company.

Sincerely,

Philip M. Hawley

Philip M. Hawley
Chairman and Chief Executive Officer
October 5, 1989

In this annual report, Philip M. Hawley, chairman and chief executive officer, and Waldo H. Burnside, president and chief operating officer, discuss some of the recent developments at the company.

Question: *Could you give us an update on the company's efforts to improve customer satisfaction?*

Mr. Hawley: We continue to make important progress in our efforts to improve customer satisfaction, the major long-term strategy of this company. All sales associates participate in extended training programs designed to develop their basic selling and communications skills. Thousands of key sales associates have also gone through a special program designed to enhance their personal and professional potential, and their response to this has been enthusiastic. In addition, all area sales managers have completed our Sales Leader Development Series, a program that provides basic team management skills for these first line managers.

Our Center for Education completed its fourth year of operation, providing management and professional development programs for more than 1,000 executives this year. The Center has become one of the key catalysts we are using to change the culture of this company. While its courses are varied, its message couldn't be more clear: customer satisfaction is our business and it should be our executives' primary mission.

During the last year we also expanded our individual incentive program to include area sales managers, bringing all people with line responsibilities in the company into some form of incentive program.

As always, the best indication of how we are doing comes from our customers. Our just completed annual survey finds customers telling us that they are finding the shopping experience in our stores more rewarding, that our sales associates are more knowledgeable about merchandise, and that our merchandise content continues to improve. We're pleased with the progress we're making in improving customer satisfaction, and at the same time, we recognize that we have more to do.


PERRY ELLIS

QUESTION: *What else is the company doing to continue the growth in sales and profits?*

MR. HAWLEY: One key strategy we have been following the last two years is expanding our store modernization program. These renovations not only enhance the store environment and make shopping more enjoyable, they also produce a good return on capital investment.

During the last year we increased our activities in selling floor modernization. These modernization efforts have included programs to realign departments and make them more convenient for our customers, reallocations of space to more closely reflect current customer buying trends, and changes in the manner in which merchandise is presented, including refixturing and aisle width adjustments.

The coming year will see us continuing our modernization efforts. Opportunities exist in each division of the company and specific store locations will be selected based on the potential for additional sales generation and a good return on investment.

Over the next few years our objective is to measurably increase the funds for store modernization.

MR. BURNSIDE: Specific merchandise areas also underwent extensive renovation during the past year. In the men's furnishings area we completed an intensification and refixturing program that gives us the capacity to stock more merchandise in an attractive setting that pleases the customer. This has produced a subsequent increase in sales per square foot for this high profit category.

This year we will begin the same type of program in the women's accessories area, another high profit category. Our expectation is that this investment will produce similar sales increases.

We also continue to modernize our distribution centers, improving the flow of merchandise in order to get it to the sales floor as quickly as possible. Over the last three years we upgraded the centers at Thalhimers, Emporium, Broadway–Southwest, and Weinstocks. This year we will begin phase one of a modernization project at The Broadway–Southern California's 2,000,000 square foot distribution center in Los Angeles.

QUESTION: *What are your plans for opening new stores over the next few years?*

MR. BURNSIDE: While we work on our store modernization program, we will also selectively open a limited number of new stores to take advantage of attractive opportunities. In August, we opened a new Thalhimers store in Colonial Heights, Virginia. In late 1990, we will open a Broadway store in Santa Barbara, giving us our first store in that city. We will also replace a Thalhimers store in Winston-Salem, N.C. with a new, larger facility. In 1991, we will open a Broadway store in El Cajon, California; Broadway–Southwest stores in East Mesa, Arizona, and Paradise Valley, Arizona; and a third Thalhimers in Raleigh, N.C.

Going forward we expect to open in selected locations with highly promising market opportunities.

QUESTION: *How are you taking advantage of the company's sophisticated information systems?*

MR. HAWLEY: We continue to look for ways to leverage our systems to better serve our customers, improve efficiencies, and grow sales and profits.

A good example of this is our staple stock program, which we briefly talked about in last year's report. This is an automatic replenishment program that uses our advanced systems capability to keep us in stock in basic merchandise commodities such as intimate apparel, hosiery, and men's furnishings. Computer systems, monitored by highly trained analysts, track sales and automatically reorder by style, color, size, and branch store. The result is that we have the right merchandise at the right time for our customers.

Altogether 25 percent of our merchandise is now on this program and our in-stock positions have significantly improved. The resulting sales gains in these merchandise categories have been substantial and we believe the program has materially contributed to improved customer satisfaction and profit.

QUESTION: *Anything else of interest in the systems area?*

MR. BURNSIDE: One of the activities we are emphasizing is the area of quick response. Essentially quick response uses our systems to link us with key vendors and allows us to do "just-in-time" merchandise orders. This gives us the inventory we need when we need it and improves customer satisfaction. And because it is more efficient, it lowers our inventory carrying costs. At present we have 35 vendors on this program, and we expect to have 75 by the beginning of 1990.

We are also moving rapidly on the installation of laser scanners on most point-of-sale terminals in our stores. Our California divisions will be completed before this Christmas season with the others scheduled for completion before the following Christmas. Scanners read the universal product code bars on the merchandise ticket and, as a result, speed-up checkout times, improve customer satisfaction, and more accurately collect sales information.

Our gift registry system also continues to be a popular program with our customers. These kiosks use a touchscreen system that allows the individual to produce a computer printout of the gift requests. The computer file is then updated once the purchases have been made.

Besides the above and the other new programs we are implementing, it is important to look at how our systems work on a more basic level. Our people kept us on-line and fully functioning more than 99 percent of the time during the last Christmas season, an outstanding contribution to our customer satisfaction program.

QUESTION: *What is the significance of the company's decision to join Associated Merchandising Corporation?*

MR. HAYES: AMC is a worldwide network of buying offices owned by a number of leading department stores in the U.S. Our joining in the ownership of this organization will accomplish an objective which we have pursued for a number of years and [illegible] to contribute importantly to the company's success in the future.

AMC will give us [illegible] domestic [illegible] expertise [illegible] and help us [illegible] our merchandise assortments. They are exceptionally well qualified to identify emerging fashions, [illegible] trends, and to [illegible] and control sources of supply. Through our association with these leading retailers, we will enjoy more accurate market research, [illegible] and product testing than was previously available. And finally, AMC offers an integrated network of buying offices around the world. In simple terms, we believe that joining AMC will give our buyers a competitive edge.

QUESTION: *Will the association with AMC affect your private label program?*

MR. HAYES: We will continue our private label program through [illegible] and Market Services, which is headquartered within AMC's offices in New York, with important contributions by AMC's highly qualified staff. Our private label program [illegible] has now comprised a significant portion of our business. We have built a loyal customer [illegible] brands such as [illegible], Neil Martin [illegible] and plan to supplement these with appropriate, well successful private label programs offered by AMC.

Private label [illegible] provides value for our customers and improves our gross margin. It also allows us to [illegible] to respond to trends in the marketplace.

QUESTION: *We noticed that customer receivables increased [illegible] significantly during the last fiscal year. What has caused this?*

MR. HAYES: [illegible] payment [illegible] with other leading stores [illegible] operating area [illegible] minimum monthly payments [illegible]

The response has been very encouraging and contributed to our comparative store sales gain during the past year. The growth in receivables was the result of these increased credit sales. A key element enabling us to effect these changes in our credit program was the credit card receivables securitization facility, which we put together last fall. This facility allows us to finance customer receivables, and to do so on very favorable terms to the company.

Besides better rates, this structure provides us with flexibility and efficiency by matching financing capabilities with peak seasonal borrowing needs. The company continues to service the credit card portfolio, meaning we receive the additional finance charge revenue these receivables generate. We expect this to contribute to earnings growth in 1990 and beyond.

The result is that by changing our credit card payment terms we have gained in two ways — we have boosted our sales and increased our operating income.

QUESTION: *Carter Hawley Hale's employee ownership is now approaching 60 percent of the stock on a fully diluted basis. How does this benefit the company and non-employee shareholders?*

MR. HAWLEY: First, employee ownership links shareholder interests with employee interests in the best possible manner. All of us have a stake in creating value for our shareholders because we are shareholders. This is an important quality of Carter Hawley Hale that has deep historical roots. Our profit sharing plan was begun in 1953 with this in mind.

Second, the employee ownership base gives us stability to manage our business for the long-term. This stability also allows us to implement the programs needed to make our company fully competitive and build long-term shareholder values.

And third, employee ownership stimulates better customer service, more attention to expense control, and enhances productivity. Our employee shareholders want to see the business prosper because they have an important stake in the business.

RESULTS OF OPERATIONS

Overview

The Company has undergone a Restructuring and significant functional consolidations during the past three years. The impact of these changes on net earnings has detracted from the improvement in operating results experienced during the three and one-half year period ended July 29, 1989. The table below highlights the improvement in operating results of the Company based on earnings from continuing operations before interest expense and income taxes (EBIT), and before one-time special items.

	Fifty-two Weeks Ended							
(Dollar amounts in millions)	*July 29, 1989*		*July 30, 1988*		*August 1, 1987*		*January 31, 1987*	
					(unaudited)			
Sales	$2,787.4		$2,617.1		$2,869.2		$2,996.0	
EBIT/percent to sales								
As reported	$ 172.8	6.2%	$ 151.1	5.8%	$ (96.7)	(3.4)%	$ 114.4	3.8%
As adjusted for special items	178.8	6.4%	149.6	5.7%	139.5	4.9 %	141.6	4.7%

EBIT for 1989 has been adjusted to exclude $6.0 million of one-time costs relating to management's decision to close down its Market Services office.

EBIT for 1988 has been adjusted to exclude a $30.0 million gain on the sale of a shopping center offset by a $28.5 million charge for operational and facility realignment programs.

EBIT for 1987 has been adjusted to exclude a number of one-time charges resulting from the Restructuring, including fees and expenses directly related to the Restructuring of approximately $40.7 million, nonrecurring Restructuring costs of $34.9 million, costs associated with the change in fiscal year of approximately $42.0 million (consisting of an $11.8 million LIFO charge related to accelerated inventory markdowns and $30.2 million of deferred buying and occupancy costs which, if the Company had not changed its fiscal year, would have been allocated to the fourth quarter of fiscal 1987), and $112.4 million of charges related to operations, of which approximately $65.0 million resulted from accelerated inventory markdowns. EBIT before special items for 1987 also excludes a loss of $6.2 million on the sale of John Wanamaker.

EBIT for 1986 has been adjusted to exclude $25.0 million of one-time Restructuring charges and a $2.2 million loss on the sale of John Wanamaker incurred in the fourth quarter of 1986.

The table below reflects how the above adjustments to EBIT are classified in the Company's Consolidated Statement of Earnings.

(In millions)	*Cost of Goods Sold*	*Selling, General, and Adminis-trative Expenses*	*Operational and Facility Realignment Program Costs*	*Direct Restructur-ing Costs*	*Other Restructur-ing Costs*	*Other One-Time Special Items*	*Total*
Year ended July 29, 1989							
Nonrecurring costs of buying office closure						$ 6.0	$ 6.0
Year ended July 30, 1988							
Gain on sale of shopping center interest						$(30.0)	$ (30.0)
Nonrecurring restructuring costs			$28.5				28.5
			$28.5			$(30.0)	$ (1.5)
Year ended August 1, 1987 (Unaudited)							
Loss on sale of John Wanamaker						$ 6.2	$ 6.2
Restructuring fees and expenses				$40.7			40.7
Nonrecurring restructuring costs		$11.8	$15.7		$7.4		34.9
Change in fiscal year	$ 42.0						42.0
One-time operating charges	65.0	47.4					112.4
	$107.0	$59.2	$15.7	$40.7	$ 7.4	$ 6.2	$236.2
Year ended January 31, 1987							
Loss on sale of John Wanamaker						$ 2.2	$ 2.2
Restructuring fees and expenses				$25.0			25.0
				$25.0		$ 2.2	$ 27.2

The following analysis of results of operations for the fifty-two week periods ended July 29, 1989, July 30, 1988, August 1, 1987, and January 31, 1987, excludes the effect of the one-time special items discussed above for all periods presented.

Sales

Sales grew 6.5 percent to $2.8 billion in 1989 compared with increases of .7 percent in 1988 and 3.7 percent in 1986. Sales of John Wanamaker and two Broadway-Southwest stores, which were sold, were excluded in calculating the 1988 sales gain. On a comparative store basis, sales increased 5.6 percent in the current year compared with increases of .2 percent in 1988 and 2.2 percent in 1987.

Costs and Expenses

Cost of goods sold as a percent to sales was 71.8 percent in 1989 and 1988, 71.7 percent in 1987, and 72.4 percent in 1986. During the last three years, cost of goods sold have reflected the benefit of increased sales of private label merchandise and lower inventory shortage. The LIFO impact on cost of goods sold was a charge of $.3 million in 1989 compared with charges of $4.8 million in 1988 and $1.0 million in 1987, and a credit of $.7 million in 1986.

Selling, general, and administrative expenses decreased as a percent of sales to 21.8 percent in 1989 compared with 22.5 percent in 1988, 23.5 percent in 1987, and 22.9 percent in 1986. The improvement in 1989 compared with prior years primarily reflects an increase in finance charge revenue from the Company's credit card operations.

Interest Expense

Interest expense as a percent to sales was 5.8 percent in 1989 compared to 5.2 percent in 1988, 2.3 percent in 1987, and 2.8 percent in 1986. The increase in 1988 and 1989 is primarily due to increased borrowings associated with the Restructuring and higher rates. In addition, interest expense in 1989 increased as a result of the financing of higher receivable levels generated by the Company's credit card operations. This increase was offset by a growth in related finance charge revenue during the year. The effect on interest expense of the increase in borrowings associated with the Restructuring is partially offset by the elimination of the $30.0 million annual preferred dividend requirement subsequent to the Restructuring. Also, interest expense for 1987 benefitted from the use of proceeds from the sale of John Wanamaker to reduce debt.

Income Tax

The effective income tax rate was 40.3 percent in 1989 and 40.0 percent in 1988, compared with a benefit of 29.7 percent in 1987 and a rate of 84.0 percent in 1986. The effective tax rates in both 1987 and 1986 were impacted by the taxable gain on the sale of John Wanamaker and the nondeductibility of certain costs relating to the Restructuring.

Net Earnings

Net earnings for the three and one-half years ended July 29, 1989 reflect a number of nonoperating items.

An after tax charge of $9.2 million, primarily comprised of the write-off of unamortized costs resulting from the early retirement of debt in conjunction with the credit card receivables securitization facility, offset by an after tax credit of $15.3 million relating to the adoption of FAS No. 96, "Accounting for Income Taxes," resulted in 1989 net earnings of $13.5 million, or $.62 per share.

An after tax charge of $1.7 million for costs related to the early retirement of debt, offset by an after tax credit of $10.1 million resulting from a change in financial accounting for the capitalization of inventory costs to conform with the tax accounting required by the 1986 Tax Reform Act, resulted in 1988 net earnings of $17.7 million, or $.72 per share.

An after tax charge of $29.3 million for the write-off of unamortized costs resulting from the early retirement of debt in the fourth quarter of 1986, and a net loss from discontinued operations of $34.1 million, resulted in a 1987 net loss of $178.7 million, or $10.40 per share.

An after tax charge of $14.1 million relating to a change in accounting for computer software development costs, together with the $29.3 million write-off in connection with the early retirement of debt in the fourth quarter of 1986, and net earnings from discontinued operations of $42.6 million, resulted in 1986 net earnings of $4.2 million, or a loss of $1.27 per share.

Inflation

The effect of inflation on the Company's sales gains is, in management's opinion, most closely approximated by the Department Store Inventory Price Index published by the Bureau of Labor Statistics. This index increased 1.3 percent and 3.3 percent in the years ended July 29, 1989 and July 30, 1988, 1.3 percent in the twenty-six weeks ended August 1, 1987, and 1.2 percent in the year ended January 31, 1987.

Financial Condition

During 1989, the Company established a $700.0 million credit card receivables securitization facility to fund its credit card activities. The facility provides for CHH Commercial Paper, Inc., a special purpose corporation not affiliated with the Company, to acquire interests in the Company's credit card receivables through the issuance of commercial paper. The initial term of the facility is for a three-year period ending December 1991, with provision for annual extensions thereafter. At July 29, 1989, $617.9 million of receivables were financed under this facility, of which approximately 65 percent have been protected from rate fluctuations by swap agreements for periods of one to three years. In addition, at July 29, 1989, $34.5 million of receivables were financed under a temporary $70 million facility to finance receivables originating from deferred payment plans of the Company during the six-month period ending December 4, 1989.

The establishment of the receivables securitization facility has provided the Company with a flexible and efficient means for matching its financing capabilities with its peak seasonal borrowing needs and has significantly reduced the need for a separate large working capital agreement. As a result, the $650.0 million working capital facility available at July 30, 1988 was replaced during 1989 with a new $140.0 million facility which more closely matches the Company's financial requirements. The new facility initially provides up to $60.0 million in working capital advances and the issuance of up to $80.0 million in letters of credit.

Capital expenditures are financed through a combination of internally generated funds from operations, property financings and other borrowings. Capital expenditures for new store space, store modernization, and support facilities and equipment were $66.9 million in 1989 and $55.3 million in 1988, $15.0 million in the twenty-six week period ended August 1, 1987, and $89.6 million in 1986. The Company's Thalhimer division opened one new store in both August 1989 and August 1988. No new stores were opened by the Company in fiscal 1988 or 1987, and four stores were opened during 1986.

CONSOLIDATED STATEMENT OF EARNINGS

(In thousands, except per share data)	Year Ended *July 29, 1989*	Year Ended *July 30, 1988*	*August 1, 1987* *(unaudited)*	Twenty-six Week Period Ended *August 1, 1987*	Year Ended *January 31, 1987*
Sales	$2,787,393	$2,617,143	$2,869,205	$1,164,338	$2,995,977
Cost of goods sold, including occupancy and buying costs	2,001,188	1,879,6[illegible]4	2,163,005	919,764	2,168,653
Selling, general, and administrative expenses	607,441	587,[illegible]69	732,863	349,185	685,680
Gain on sale of shopping center interest		30,000			
Costs of operational and facility realignment programs		28,500	15,700	15,700	
Loss on sale of John Wanamaker			6,200	4,000	2,200
Direct restructuring costs			40,750	15,750	25,000
Other restructuring costs			7,400	7,400	
Nonrecurring costs of buying office closure	6,000				
Earnings (loss) from continuing operations before interest expense and income taxes	172,764	151,110	(96,713)	(147,464)	114,444
Interest expense	160,344	135,600	67,370	28,134	82,915
Earnings (loss) from continuing operations before income taxes	12,420	15,510	(164,083)	(175,595)	31,529
Income taxes	5,000	6,200	(48,800)	(68,300)	26,500
Earnings (loss) from continuing operations	7,420	9,310	(115,283)	(107,295)	5,029
Discontinued operations, net of income taxes of $(28,350), $(56,800), and $38,900			(34,115)	(63,578)	42,586
Earnings (loss) before extraordinary costs and cumulative effect of changes in accounting	7,420	9,310	(149,398)	(170,873)	47,615
Extraordinary costs relating to early retirements of debt, net of income tax benefits of $6,200, $1,210, $28,804, and $28,804	(9,250)	(1,750)	(29,253)		(29,253)
Cumulative effect of changes in accounting					
Income taxes	15,300				
Capitalization of inventory costs, net of income tax expense of $10,440		10,100			
Expensing of computer software development costs, net of income tax benefit of $15,505					(14,148)
Net earnings (loss)	$ 13,470	$ 17,660	$ (178,651)	$ (170,873)	$ 4,214
Earnings (loss) per common share					
Continuing operations	$ .34	$ .33	$ (7.24)	$ (6.06)	$ (1.23)
Discontinued operations			(1.70)	(3.15)	2.10
Extraordinary costs	(.42)	(.08)	(1.46)		(1.44)
Changes in accounting					
Income taxes	.70				
Capitalization of inventory costs		.47			
Expensing of computer software development costs					(.70)
	$ .62	$ .72	$ (10.40)	$ (9.21)	$ (1.27)

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Balance Sheet

(In thousands)	*July 29, 1989*	*July 30, 1988*
Assets		
Current assets		
Cash	$ 27,527	$ 24,643
Accounts receivable, net	746,305	473,826
Merchandise inventories	562,514	536,656
Deferred income taxes		11,825
Other current assets	31,568	27,833
	1,367,914	1,074,783
Property and equipment, net	560,976	535,661
Other assets	59,475	61,178
	$1,988,365	$1,671,622
Liabilities and Shareholders' Equity		
Current liabilities		
Current installments	$ 3,575	$ 4,364
Accounts payable	309,346	306,846
Accrued liabilities	162,228	177,648
Current income taxes	10,685	12,867
Deferred income taxes	8,773	
	494,607	501,725
Receivables based financing	652,432	351,000
Other long-term debt	878,421	826,248
Capital lease obligations	78,244	83,168
Other liabilities	57,537	62,042
Deferred income taxes	38,741	77,630
Shareholders' equity		
Common stock, $.01 par value	230	226
Other paid-in capital	586,449	581,349
Accumulated deficit	(798,296)	(811,766)
	(211,617)	(230,191)
	$1,988,365	$1,671,622

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Statement of Cash Flows

(In thousands)	*Year Ended* *July 29, 1989*	*Year Ended* *July 30, 1988*	*Year Ended* *August 1, 1987* *(unaudited)*	*Twenty-six Week Period Ended* *August 1, 1987*	*Year Ended* *January 31, 1987*
Operating activities					
Earnings (loss) from continuing operations	$ 7,420	$ 9,310	$(115,283)	$(107,295)	$ 5,029
Depreciation and amortization	52,956	51,829	57,851	24,311	55,285
Gain on sale of shopping center interest		(30,000)			
Deferred income taxes	(2,947)	(22,900)	(14,664)	(48,602)	26,320
Loss on sale of John Wanamaker, net			6,700		6,700
Change in operating assets and liabilities					
Accounts receivable, net	(272,479)	72,993	(141,893)	(26,123)	21,715
Merchandise inventories	(25,858)	(103,790)	116,451	65,058	52,315
Accounts payable and accrued liabilities	(12,920)	40,149	150,250	80,305	(48,091)
Other, net	(22,404)	8,279	(19,049)	(5,361)	(24,831)
Net cash provided (used) by Continuing operations	(276,232)	25,870	70,363	(17,707)	94,442
Discontinued operations			(72,660)	69,077	(131,464)
	(276,232)	25,870	(2,297)	51,370	(37,022)
Investment activities					
Purchases of property and equipment	(75,849)	(80,205)	(65,841)	(15,034)	(89,647)
Sales of property and equipment	4,892	2,199	27,487	25,732	6,839
Sale of shopping center interest		32,000			
Elimination of John Wanamaker properties			80,243		80,243
Change in specialty store investment			(37,620)	(196,867)	212,588
Net cash provided (used) by investment activities	(70,957)	(46,006)	4,269	(186,169)	210,023
Financing activities					
Increase (decrease) in receivables based financing	301,432	202,000	(112,000)	(42,000)	(70,000)
Other issuances of long-term debt	87,215	798,630			
Increase (decrease) in notes payable	(27,000)	(510,000)	447,500	8,000	529,000
Retirements of long-term debt and capital lease obligations	(13,755)	(115,054)	(467,268)	(21,437)	(544,303)
Costs relating to early retirements of long-term debt, net of items not requiring cash outlay	(974)	(1,750)	(23,173)		(23,173)
Net change in debt allocated to the specialty store divisions			175,392	199,639	(26,931)
Issuances of common stock	3,155	4,587	22,859	13,593	14,894
Restructuring dividend		(346,464)			
Common and preferred stock dividends		(2,055)	(48,375)	(21,155)	(54,255)
Net cash provided (used) by financing activities	350,073	29,894	(5,065)	136,640	(174,768)
Net increase (decrease) in cash	2,884	9,758	(3,093)	1,841	(1,767)
Cash at the beginning of the period	24,643	14,885	17,978	13,044	14,811
Cash at the end of the period	$ 27,527	$ 24,643	$ 14,885	$ 14,885	$ 13,044

See accompanying Summary of Significant Accounting Policies and Financial Review.

(In thousands)	*Common Stock* Shares	*Common Stock* Par Value	*Other Paid-in Capital*	*Accumulated (Deficit) Earnings*
Balance, February 1, 1986	19,559	$ 97,797	$149,957	$ 111,600
Net earnings				4,214
Cash dividends				
Common Stock ($1.22 per share)				(24,255)
Redeemable preferred stock				(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan	67	337	2,057	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan	97	485	3,040	
Issuance of common stock to Profit Sharing Plan	10	50	303	
Exercise of stock options	296	1,479	6,602	
Conversion of convertible debentures	13	65	476	
Balance, January 31, 1987	20,042	100,213	162,435	61,559
Net loss				(170,873)
Cash dividends				
Common stock ($.305 per share)				(6,155)
Redeemable preferred stock				(15,000)
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan	31	152	1,546	
Exercise of stock options	147	738	5,062	
Conversion of convertible debentures	147	734	5,361	
Balance, August 1, 1987	20,367	101,837	174,404	(130,469)
Net earnings				17,660
Cash dividends on redeemable preferred stock				(2,055)
Restructuring dividend of $17 per share				(346,464)
Change in common stock par value		(101,633)	101,633	
Conversion of redeemable preferred stock to common and preferred stock of The Neiman Marcus Group			298,987	
Distribution of net assets of The Neiman Marcus Group				(350,438)
Issuance of common stock under stock incentive plan	1,827	18	24,620	
Stock incentive plan contra*			(22,869)	
Exercise of stock options and other stock conversions	398	4	4,574	
Balance, July 30, 1988	22,592	226	581,349	(811,766)
Net earnings				13,470
Stock incentive plan contra*			2,042	
Exercise of stock options and other stock issuances	468	4	3,058	
Balance, July 29, 1989	23,060	$ 230	$586,449	$(798,296)

**Other Paid-in Capital is net of notes receivable and unamortized costs relating to the Company's current stock incentive plan (see Employee Stock Incentive Plans note in the Financial Review).*
See accompanying Summary of Significant Accounting Policies and Financial Review.

The Restructuring
On August 26, 1987, shareholders approved a plan of restructuring (the Restructuring) in which the Company was reorganized into two separate companies. The operations of the Company's specialty store divisions comprising Bergdorf Goodman, Contempo Casuals, and Neiman Marcus were transferred to The Neiman Marcus Group, a newly formed Delaware corporation. The Company continues to operate the department store divisions comprising The Broadway-Southern California, The Broadway-Southwest, Emporium, Thalhimers, and Weinstocks.

All public common shareholders of the Company, including participants in the Company's profit sharing plan, retained their stock in the Company and also received $17 in cash and a share of stock in The Neiman Marcus Group for each Company share held. The convertible preferred shares of the Company (held by General Cinema Corporation) were exchanged for shares in The Neiman Marcus Group. General Cinema received no cash or shares of the Company in respect of its preferred shares. Senior Management of the Company received no cash or shares of The Neiman Marcus Group in respect of their existing holdings, except for the shares held in the profit sharing plan, but, rather, additional common shares of the Company. The Restructuring allowed certain shareholders, including participants in the profit sharing plan, to make elections as to what cash or securities they would hold after the effective time of the Restructuring and incorporated a market formula designed to provide all shareholders with essentially equivalent value.

Total direct costs related to the Restructuring amounted to $93.2 million of which $15.7 million was expensed in the twenty-six week period ended August 1, 1987 and $25.0 million was expensed in the fifty-two week period ended January 31, 1987. In addition, $8.3 million was expensed by The Neiman Marcus Group in the twenty-six week period ended August 1, 1987. The remaining $44.2 million comprises debt issuance costs to be amortized over the life of the related debt. Included in other assets are unamortized debt issuance costs of $39.3 million at July 30, 1988 and $25.8 million at July 29, 1989. In addition, $51.6 million of other restructuring costs relating primarily to certain shared costs and costs of operational and facility realignment programs have been incurred, of which $28.5 million was expensed in the year ended July 30, 1988 and $23.1 million was expensed in the twenty-six week period ended August 1, 1987. The operational and facility realignment programs include the consolidation of certain nonselling operating activities, the conversion of certain merchandise departments from owned to leased operations, and other programs designed to reduce operating costs and improve efficiency.

Basis of Reporting
The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain amounts reported in prior years have been reclassified to conform to the 1989 presentation.

Discontinued operations comprise the specialty store divisions transferred to The Neiman Marcus Group. The operations of the John Wanamaker department store subsidiary are reflected in continuing operations through December 31, 1986, the effective date of sale of that subsidiary.

Fiscal Year
With the Restructuring, the Company changed its fiscal year end from the Saturday closest to January 31 to the Saturday closest to July 31. Fiscal 1989 and 1988 comprised the fifty-two weeks ended July 29, 1989 and July 30, 1988, fiscal 1987 comprised the twenty-six weeks ended August 1, 1987, and fiscal 1986 comprised the fifty-two weeks ended January 31, 1987.

Unaudited Statements
In the opinion of the Company's management, the unaudited Consolidated Statements of Earnings and Cash Flows for the fifty-two week period ended August 1, 1987 contain all adjustments, including normal recurring adjustments and the extraordinary charge for costs relating to early retirement of debt, necessary for the amounts shown to be fairly stated. Due to the seasonal nature of the retail business wherein a significant portion of sales for the year are generated in the Christmas season, the Company follows the practice of allocating certain fixed buying and occupancy costs within the Company's fiscal year in order to match these expenses with the related sales revenue. Earnings from continuing operations for the fifty-two and twenty-six week periods ended August 1, 1987 included $30.2 million of such buying and occupancy costs which, except for the change in the Company's year end, would have been deferred to the fourth quarter of 1987.

Financial data for the fifty-two weeks ended August 1, 1987 and January 31, 1987 each include operating data for the twenty-six week period ended January 31, 1987. Sales and net loss for this twenty-six week period were $1,704.9 million and $7.8 million.

Changes in Accounting Policies
In 1989, the Company adopted Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes." This statement requires the use of the liability method of accounting for income taxes and requires the adjustment of previously recorded deferred tax liabilities and assets for the effects of changes in tax laws or rates through the date of the latest financial statements presented. The cumulative effect of the change on prior years was a gain of $15.3 million which has been reflected in net earnings for the first quarter of 1989. The change had no material effect on 1989 net earnings from operations.

In 1988, the Company changed its method of inventory cost capitalization to conform to the uniform cost capitalization rules required for tax purposes under the Tax Reform Act of 1986. The change results in the capitalization of certain inventory storage and processing costs to better match these costs with the related sales. The change had no material effect on 1988 earnings from continuing operations. The cumulative effect of the change on prior years was a gain of $10.1 million, net of income taxes of $10.4 million, which has been reflected in net earnings in the first quarter of 1988.

In 1986, the Company changed its method of accounting for costs incurred in the development of major computer software applications for internal use from capitalizing and amortizing to expensing these costs as incurred. This change was made to conform the Company's accounting policy with predominant practice. The change, which was adopted retroactive to February 2, 1986, had no material effect on 1986 earnings from continuing operations. The cumulative effect of the change on prior years was a charge of $14.1 million, net of income taxes of $15.5 million, which has been reflected in net earnings for the first quarter of 1986.

In 1986, the Company also adopted Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" for all defined benefit pension plans. The change, which was adopted retroactive to February 2, 1986, had no material effect on 1986 earnings from continuing operations. Beginning in fiscal 1990, the statement requires recognition of an additional liability if the accumulated benefit obligation exceeds the fair market value of plan assets. If this statement provision had been applied at July 29, 1989, it would have required the recognition of an additional pension liability of $42.5 million offset by an intangible asset of $35.4 million, a reduction in deferred taxes of $2.8 million, and a direct charge to equity of $4.3 million.

Sales
Sales are net of returns, exclude sales tax, and comprise merchandise, services, and sales by leased departments.

Customer Accounts Receivable
An account is generally written off when the aggregate of payments made in the most recent six months is less than one full monthly scheduled payment or if it is otherwise determined that the account is uncollectible.

Inventories
Merchandise inventories are valued at cost, which is less than market, as determined by the retail method on the last-in, first-out (LIFO) basis.

Property and Equipment
Property and equipment are recorded at cost and include major renewals and improvements of a permanent nature. Other renewals and improvements and maintenance and repairs are expensed.

Depreciation and Amortization
Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the property and equipment, or over the terms of the related leases, if shorter.

Income Taxes
Income taxes are provided currently for all items included in the Consolidated Statement of Earnings regardless of when such taxes are payable. Deferred taxes arise from the recognition of revenues and expenses in different periods for tax and financial statement purposes.

Earnings Per Share of Common Stock
Earnings per share are computed on the basis of the weighted average number of shares outstanding during the year, including dilutive stock options, net of shares deemed repurchased in connection with the Company's current stock incentive plan. The average shares used were 21.8 million in both 1989 and 1988 and 20.2 million in both 1987 and 1986. Earnings per share computations prior to 1989 were based on earnings net of preferred dividend payments of $2.1 million in 1988, $15.0 million in 1987, and $30.0 million in 1986.

Fully diluted earnings per share have not been presented since the dilutive effect was not material.

Discontinued Operations

As a result of the Restructuring, the assets and liabilities of the Company's specialty store divisions were transferred to The Neiman Marcus Group in August 1987. Specialty store sales for the twenty-six weeks ended August 1, 1987 were $517.9 million and for the fifty-two weeks ended January 31, 1987 were $1,093.8 million.

Sale of John Wanamaker

On December 31, 1986, the Company completed the sale of its John Wanamaker subsidiary for approximately $183.0 million in cash. The $2.2 million pretax loss on the sale recorded in 1986 was based upon management's determination of book value. Such determination was subject to acceptance by the purchaser. During 1987, the parties agreed to an adjustment to the original purchase price which resulted in a pretax charge of $8.0 million, shared equally by the Company and The Neiman Marcus Group. John Wanamaker's sales were $433.2 million for the eleven months ended December 31, 1986.

Interest Expense

Interest expense increased in 1989 as a result of the financing of higher receivable levels generated by the Company's credit card operations. The increase in 1988 reflects higher average borrowings resulting from the Restructuring and to increased rates. The components of interest expense are as follows:

(In millions)	*1989*	*1988*	*1987*	*1986*
Interest on total debt	$151.4	$123.3	$ 36.5	$109.7
Imputed interest on capitalized lease obligations	7.4	8.3	5.4	11.8
Capitalized interest	(2.6)	(1.0)	(.3)	(2.1)
Interest expense attributable to discontinued operations			(14.4)	(36.1)
Amortization of debt issuance costs	5.4	5.6		
Other	(1.2)	(.6)	.9	(.4)
Interest expense	$160.4	$135.6	$ 28.1	$ 82.9

Accrued interest totaling $27.0 million at July 29, 1989 and $26.8 million at July 30, 1988 is reflected in accrued liabilities. Interest payments, net of amounts capitalized, and excluding payments on debt allocated to the specialty store divisions prior to 1988, were $156.0 million in 1989, $112.2 million in 1988, $28.1 million in 1987, and $92.5 million in 1986.

Income Tax Expense

The provision for income taxes consists of:

(In millions)	*1989*	*1988*	*1987*	*1986*
Current				
Federal	$ 7.1	$ 22.4	$ (14.5)	$ (3.2)
State	.8	6.7	(5.2)	3.4
	7.9	29.1	(19.7)	.2
Deferred				
Federal	(3.0)	(19.0)	(42.7)	24.0
State	.1	(3.9)	(5.9)	2.3
	(2.9)	(22.9)	(48.6)	26.3
Income tax expense (benefit)	$ 5.0	$ 6.2	$ (68.3)	$ 26.5

Deferred income tax expense (benefit) results from temporary differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their tax effects were:

(In millions)	*1989*	*1988*	*1987*	*1986*
State income taxes	$ .2	$ (1.6)	$ 2.5	$ 1.6
Book-tax depreciation differential	3.7	(.6)	2.2	3.0
Finance charge revenue	.7	.1	(.5)	(.5)
Deferred revenue	1.6	1.2		
Capitalized interest and other real estate costs	1.9	1.0	.2	1.7
Prepaid and other deferred charges	7.9	(2.9)	(8.3)	.7
Inventory adjustments	(2.4)	.6	(12.0)	1.8
Functional consolidation and restructuring reserves	5.9	(3.1)	(13.1)	
Deferred gross profit on installment sales	(21.5)	(16.3)	(12.7)	16.4
Charitable contribution carryover	(1.3)		(1.2)	(.3)
Tax credit carryovers	(1.5)			
Other, net	1.9	(1.3)	(5.7)	1.9
Deferred income tax expense (benefit)	$ (2.9)	$ (22.9)	$ (48.6)	$ 26.3

Income taxes as a percent of earnings before income taxes differed from the statutory federal income tax rate as set forth below:

	In Millions				Percent of Pre-tax Earnings			
	1989	1988	1987	1986	1989	1988	1987	1986
Federal income tax at statutory rate	$ 4.2	$ 5.3	$(79.0)	$ 14.5	34.0%	34.0%	(45.0)%	46.0%
State income taxes	1.2	1.8	(6.1)	2.7	9.7	11.9	(3.5)	8.5
Book-tax rate differential			7.2				4.1	
Restructuring costs			7.1	11.5			4.0	36.5
John Wanamaker basis difference				5.6				17.7
Net investment and other tax credits	(.6)	(.7)	1.2	(2.6)	(4.9)	(4.5)	.7	(8.2)
Charitable contribution				(2.0)				(6.3)
ESOB Plan credit				(1.1)				(3.5)
Reversal of taxes previously provided				(1.6)				(5.1)
Other, net	.2	(.2)	1.3	(.5)	1.5	(1.4)	.8	(1.6)
Income taxes	$ 5.0	$ 6.2	$(68.3)	$ 26.5	40.3%	40.0%	(38.9)%	84.0%

The book-tax rate differential in 1987 arose since the Company had different fiscal year ends for financial reporting and tax return purposes.

The Company and The Neiman Marcus Group entered into a Tax Allocation Agreement (the "Agreement") in connection with the Restructuring. Under the Agreement, the Neiman Marcus Group was responsible for the payment of certain taxes arising out of transition rules of the Tax Reform Act of 1986 relating to installment sales, bad debt reserves, and inventory capitalization, which were attributable to the specialty store business for periods prior to the Restructuring. The Neiman Marcus Group has disputed their potential obligation of approximately $23 million of taxes arising under the Agreement. This includes approximately $19 million reflected by the Company in current accounts receivable and $4 million included in prior payments to the Company. The Company has commenced litigation to recover the balance due on all disputed amounts. In response, The Neiman Marcus Group has counter claimed to recover approximately $6 million relating to the treatment of other items under the Agreement. In the opinion of management, the Company should prevail in such litigation, although no assurances can be given in this regard.

The Company has tax basis net operating loss carryforwards for state purposes of approximately $17.5 million and federal business credit carryforwards of approximately $1.1 million expiring between the years 2002 and 2004. For financial statement purposes, the Company has recognized the tax benefit relating to these carryforwards as an offset to future deferred tax liabilities.

Income tax payments, including amounts relating to The Neiman Marcus Group for periods prior to the Restructuring, were $7.2 million in 1989, $11.7 million in 1988, $12.4 million in 1987 and $10.2 million in 1986.

Accounts Receivable and Credit Operations

Accounts receivable at year end were as follows:

(In millions)	*1989*	*1988*
Customer receivables	$698.6	$436.9
Other receivables		
Income taxes	14.8	12.2
The Neiman Marcus Group	28.9	21.3
Other	14.4	9.9
	756.7	480.3
Less allowance for doubtful accounts	10.4	6.5
Accounts receivable, net	$746.3	$473.8

Term changes announced in July 1988, combined with an expanded new account marketing program, resulted in the growth of credit sales from 53 percent of total sales in 1988 to 58 percent in 1989 and increased the level of customer receivable balances outstanding from $436.9 million at July 30, 1988 to $698.6 million at July 29, 1989.

The receivable from The Neiman Marcus Group includes approximately $19 million in 1989 and $12 million in 1988 under the Tax Allocation Agreement, with the balance representing amounts for shared costs and other reimbursable expenses incurred by the Company. Fees received from The Neiman Marcus Group in connection with Information Services support are treated as a reduction of selling, general, and administrative expenses.

Selected credit operations information is as follows:

(Dollar amounts in millions)	*1989*	*1988*	*1987*	*1986*
Credit sales as a percent of gross sales	58.5%	53.2%	52.0%	53.8%
Uncollectible account losses, net of recoveries, as a percent of credit sales	1.4%	1.2%	1.9%	1.6%
Finance charge revenue	$94.9	$65.4	$33.3	$81.7

Finance charge revenue is treated as a reduction of selling, general, and administrative expenses.

Inventories

Merchandise inventories were $562.5 million at July 29, 1989 and $536.7 million at July 30, 1988. In 1989, the LIFO method of accounting resulted in a charge of $.3 million to cost of sales compared with charges of $4.8 million in 1988 and $11.8 million in 1987, and a credit of $.7 million in 1986. If all inventories had been valued on the first-in, first-out (FIFO) basis, they would have been higher by $49.8 million at July 29, 1989, $52.4 million at July 30, 1988, $45.6 million at August 1, 1987, and $33.8 million at January 31, 1987.

Leases

Certain Company operations are conducted in leased properties, which include retail stores, distribution centers, offices, and other facilities. Leases are generally for periods of up to thirty years, with renewal options for substantial periods. Leases are generally at fixed rentals, except that certain leases provide for additional rentals based on sales in excess of predetermined levels.

Rent expense for each year was as follows:

(In millions)	*1989*	*1988*	*1987*	*1986*
Minimum rent	$33.4	$33.1	$16.8	$34.0
Rent based on sales	3.6	3.8	1.9	4.5
Total rent expense	$37.0	$36.9	$18.7	$38.5

Future minimum lease payments are as follows:

(In millions)	*Capital Leases*	*Operating Leases*
1990	$ 10.5	$ 28.9
1991	10.5	31.6
1992	10.1	31.7
1993	10.0	32.3
1994	9.8	32.1
Thereafter	106.5	561.3
Total future minimum lease obligations	$157.4	$717.9
Present value including $3.4 million current portion of capital lease obligations	$ 81.6	$279.0

Present value of operating leases is determined by discounting future minimum rent commitments, less assumed executory and administrative costs, at rates that approximate the Company's financing costs at the inception of the lease.

Property and Equipment

Property and equipment at year end were as follows:

(In millions)	*1989*	*1988*
Land	$ 46.9	$ 45.7
Buildings and improvements	352.0	304.0
Leasehold improvements	83.3	84.1
Fixtures and equipment	440.6	425.0
Construction in progress	38.0	38.7
Leased property under capital leases, primarily buildings	116.0	120.1
	1,076.8	1,017.6
Less accumulated depreciation and amortization		
Owned property	458.3	424.8
Leased property under capital leases	57.5	57.1
	515.8	481.9
Property and equipment, net	$561.0	$535.7

Capital expenditures during the year were as follows:

(In millions)	*1989*	*1988*	*1987*	*1986*
New stores	$15.9	$ 9.9	$ 4.3	$49.8
Store modernization	35.4	37.3	4.4	24.6
Support facilities and equipment	15.6	8.1	6.3	15.2
Purchases of leased stores	8.9	24.9		
Total capital expenditures	$75.8	$80.2	$15.0	$89.6

Expenditures for new stores include acquisition costs of land, buildings and improvements, and related fixtures and equipment. Store modernization expenditures include renovating, expanding, and re-equipping existing stores. Support facilities and equipment expenditures relate to office buildings, distribution centers, and other nonstore outlays. During 1989 and 1988, certain properties previously operated under capital or operating leases were purchased and subsequently used as collateral for certain long-term debt financings.

Long-Term Debt

Long-term debt at year end was as follows:

(In millions)	*1989*	*1988*
Receivables based financing maturing 1991 (9.1 percent weighted average interest rate at July 29, 1989)	$ 652.4	$ 348.0
Other long-term debt		
Term loans due in 1995 (9.7-11.0 percent at July 29, 1989)	126.7	86.2
9.4 percent Notes		27.0
9.9 percent Notes due 1990-2010	9.5	9.7
10.69 percent Notes due 1992-1997	347.2	347.2
13.0 percent Real Estate Financing due 1990	38.0	
Other	7.0	6.1
	1,180.8	824.2
Subordinated debt		
8.95 percent receivables based financing		3.0
12.25 percent Notes due 1996	125.0	125.0
12.5 percent Debentures due 1998-2002	225.0	225.0
Total long-term debt	$1,530.8	$1,177.2

During 1989, the Company established a $700 million credit card receivables securitization facility to fund its credit card activities. The facility provides for CHH Commercial Paper, Inc., a special purpose corporation not affiliated with the Company, to acquire interests in the Company's credit card receivables through the issuance of commercial paper. The initial term of the facility is for a three-year period ending December 1991, with provision for annual extensions thereafter. At July 29, 1989, $617.9 million of receivables were financed under this facility, of which approximately 65 percent have been protected from rate fluctuations by swap agreements for periods of one to three years. In addition, at July 29, 1989, $34.5 million of receivables were financed under a temporary $70 million facility to finance receivables originating from deferred payment plans of the Company during the six-month period ending December 4, 1989.

The cancellation of a working capital facility in 1989, as a result of the establishment of the receivables securitization facility, the refinancing of debt on certain mortgaged properties in 1989 and 1988, and the retirement of public debt to facilitate the Company's Restructuring in 1987, have resulted in extraordinary, after tax, charges of $9.2 million in 1989, $1.7 million in 1988, and $29.3 million in 1986.

Principal maturities of long-term debt over the next five years, exclusive of borrowing under the receivables securitization facility and the real estate financing which is to be refinanced on a long-term basis during 1990, are $.2 million in each of the years 1990 through 1992, $1.5 million in 1993, and $1.9 million in 1994. Long-term debt includes $528.4 million secured by property with a net carrying value of $276.5 million.

The subordinated debt agreements restrict the payment of cash dividends unless the consolidated net worth of the Company exceeds $600.0 million.

Bank Credit Arrangements

The receivables securitization facility established during 1989 has significantly reduced the need for a separate large working capital agreement. As a result, the $650.0 million working capital facility available at July 30, 1988 was replaced during 1989 with a $140.0 million facility which initially provides up to $60.0 million in working capital advances and the issuance of up to $80.0 million in letters of credit. Borrowings under this facility bear interest at variable rates and a commitment fee is payable on the unused portion. At July 29, 1989, there were no borrowings under the facility.

Retirement and Profit Sharing Plans

The Company has several qualified noncontributory pension plans covering substantially all employees. Employees who have completed one year of employment, are at least 21 years of age, and are not covered by a collectively bargained pension plan, are covered by the plans and become vested for benefit purposes after completing five years of employment with the Company. The Company also has unfunded nonqualified pension plans covering certain employees. Each year the Company contributes at least the actuarially determined minimum amount necessary to fund participants' benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974 plus additional amounts which may be approved by the Company from time to time. Plan assets are invested in equity and fixed income securities.

The following table summarizes pension expense and funded status of the plans, as determined by the Company's actuary, together with an analysis of the significant actuarial assumptions used.

(In millions)	*1989*	*1988*	*1987*	*1986*
Net periodic pension expense				
Service costs	$ 4.9	$ 5.9	$ 2.5	$ 5.0
Interest cost on projected benefit obligation	14.2	13.0	5.7	11.9
Actual net loss (return) on assets	(10.2)	2.8	(9.7)	(10.9)
Net amortization (deferral)	2.2	(11.5)	6.4	3.3
	$ 11.1	$ 10.2	$ 4.9	$ 9.3
Funded status of plans				
Accumulated benefit obligation				
Vested	$(145.7)	$(133.3)	$(127.3)	$(139.0)
Nonvested	(8.1)	(9.3)	(8.7)	(9.8)
	(153.8)	(142.6)	(136.0)	(148.8)
Additional amounts relating to projected compensation increase	(19.0)	(23.7)	(19.8)	(20.7)
Actuarial present value of projected benefit obligations	(172.8)	(166.3)	(155.8)	(169.5)
Market value of plan assets	95.1	92.6	105.2	110.6
Funded status	(77.7)	(73.7)	(50.6)	(58.9)
Unrecognized net obligation at initial date of application of FAS No. 87	35.1	37.6	41.0	44.8
Unrecognized net loss	24.2	29.1	11.5	19.8
Unrecognized prior service costs	2.2			
Prepaid pension expense (pension liability)	$ (16.2)	$ (7.0)	$ 1.9	$ 5.7
Significant actuarial assumptions				
Discount rate	9.5%	9.0%	9.0%	9.0%
Long-term rate of return on assets	11.0	11.0	11.0	11.0
Projected rate of compensation increases	5.0	5.0	5.0	5.0

In addition, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as expense when paid. The Company expensed claims for $2.9 million in 1989, $2.5 million in 1988, $1.2 million in 1987, and $2.2 million in 1986.

A contributory Profit Sharing Plan is available to substantially all employees who have completed one year of service. The Plan provides that the Company will contribute an amount which is the greater of 3 percent of consolidated pretax earnings (as defined in the Plan agreement) or an amount which is at least equal to 25 percent of employee contributions. Employee and Company contributions are used to buy shares of the Company's common stock at prevailing market prices. Company contributions to the Plan were $3.2 million in 1989, $2.8 million in 1988, $.7 million in 1987, and $4.3 million in 1986. The Plan, at July 29, 1989, held 10.3 million shares representing 44.8 percent of the Company's common stock outstanding.

As part of the Restructuring, the Company and The Neiman Marcus Group entered into an Employee Benefits Agreement which provides that The Neiman Marcus Group will be responsible for 50 percent of the unfunded liabilities which were accrued prior to the Restructuring and were attributable to the Company's corporate employees (including employees of the Information Services and Market Services divisions) under the pension, deferred compensation, and medical and life insurance plans. The agreement also provides that the Company and The Neiman Marcus Group jointly and unconditionally guarantee the unfunded liabilities accrued prior to the Restructuring for corporate employees under the nonqualified pension plan and the deferred compensation plan. Such guarantee shall continue in effect until the Company's net worth exceeds $300 million.

Employee Stock Incentive Plans

Under the Company's current stock incentive plan, key employees may be granted stock options, stock purchase rights, and restricted stock awards. Stock options are granted to purchase common stock of the Company at not less than the market price on the date of grant and are exercisable over a ten-year period, generally beginning one year from the date of grant. Stock purchase rights are shares offered for purchase by means of nonrecourse interest bearing notes which become due in six years. Restricted stock awards are shares issued at no cost to the employee but which vest only after the completion of six years of continuous employment with the Company subsequent to the grant date. In most cases, exercise of the restricted stock awards are also subject to the exercise of the related stock purchase rights.

During 1989, options for 72,000 shares, 30,000 stock purchases rights, and 34,000 restricted stock awards, were issued under the current stock incentive plan at prices ranging from $8.125 to $9.25. At July 29, 1989, options for 90,000 shares were outstanding at exercise prices ranging from $8.75 to $14.00, of which 4,000 were exercisable. In addition, at July 29, 1989, $12.2 million of 8.15 percent to 9.69 percent nonrecourse notes relating to .9 million outstanding stock purchase rights, and $8.6 million of unamortized costs relating to .9 million outstanding restricted stock awards were reflected as contras to shareholders' equity. Shareholders' equity at July 30, 1988 reflected contras of $12.3 million for nonrecourse notes relating to outstanding stock purchase rights and $10.6 million of unamortized costs relating to outstanding restricted stock awards. The cost of the restricted stock awards is being amortized over the vesting period, resulting in a charge to income of $1.9 million in 1989 and $1.8 million in 1988.

At July 29, 1989, under stock incentive plans in existence at the time of the Restructuring, options for 3.2 million shares were outstanding at prices ranging from $2.67 to $7.30, of which 2.9 million were exercisable. During 1989, .5 million options were exercised at prices ranging from $2.67 to $7.07 under these plans. Subsequent to the Restructuring no new options can be granted under these plans.

Contingencies

The Company is a defendant in certain legal actions. In the opinion of management, the disposition of these actions will not have a material adverse effect upon the Company's financial position or results of operations.

Common Stock and Other Shareholders' Equity

As part of the Restructuring, the par value of common stock was changed from $5.00 per share to $.01 per share and the authorized common stock outstanding was increased from 60 million to 100 million shares. At July 29, 1989, 3.5 million shares were reserved under the employee stock incentive plans and 2.0 million shares were reserved for purchase by the Profit Sharing Plan.

On August 26, 1987, the Company declared a dividend of one Preferred Stock Purchase Right (the Right) for each outstanding share of common stock. The Rights expire 10 years after issuance, and are exercisable only if a person or group (other than the Profit Sharing Plan) acquires 20 percent or more of the Company's common stock or commences a tender or exchange offer which would result in the acquisition of 30 percent or more of the Company's common stock. Each Right entitles the holder to purchase one newly-issued unit of preferred stock at an exercise price of $60.

Under certain circumstances, as provided in the Rights Plan, each Right entitles the holder to purchase common stock of the Company or an acquiring company having a value equal to twice the exercise price. The Company may redeem the Rights at $.02 per Right at any time prior to 10 days after the acquisition of 20 percent of the Company's common stock.

Preferred Stock

The authorized preferred stock consists of five million shares $.01 par value of which no amounts were reserved or outstanding at July 29, 1989. As part of the Restructuring, one million shares of redeemable preferred stock held by General Cinema Corporation were converted into common and preferred shares of The Neiman Marcus Group.

Company Report on Responsibility for Financial Statements

The integrity and objectivity of the financial statements, including estimates and judgments inherent in the preparation of financial information and the selection of appropriate accounting principles, are the responsibilities of the Company, as is all other information included in this Annual Report.

The Company maintains a system of internal accounting controls, supported by documentation, to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company. Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. The Company believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship. The system provides for the prevention or detection of material errors and has been implemented and supported by written policies and guidelines, the internal audit function, a division of responsibility in organizational arrangements, and the selection and training of qualified personnel.

The financial statements have been examined by our independent accountants in accordance with generally accepted auditing standards in order that they might render their independent professional opinion. To express their opinion, independent accountants develop and maintain an understanding of the accounting and financial systems and controls, conduct tests, and employ such related audit procedures as they consider necessary.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent accountants, management, and internal auditors to discuss accounting principles, financial and accounting controls, the scope of the annual audit, internal audit, and other matters. Management's selection of independent accountants is reviewed by this committee and the independent accountants and the internal auditors have complete access to it, without management present, to discuss results of their audit and their opinions on adequacy of internal controls, quality of financial reporting, and any other matters of interest.

Price Waterhouse

Report of Independent Accountants

To the Board of Directors and Shareholders of Carter Hawley Hale Stores, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, cash flows, and common stock and other shareholders' equity present fairly, in all material respects, the financial position of Carter Hawley Hale Stores, Inc. and its consolidated subsidiaries at July 29, 1989 and July 30, 1988, and the results of their operations and their cash flows for each of the two fiscal years in the period ended July 29, 1989, for the twenty-six week period ended August 1, 1987 and for the fiscal year ended January 31, 1987, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in the Changes in Accounting Policies section of the Summary of Significant Accounting Policies, the Company changed its method of accounting for income taxes in fiscal 1989, its method of accounting for certain indirect costs incurred in the acquisition of merchandise inventories in fiscal 1988 and its method of accounting for costs incurred in the development of computer software for internal use in fiscal 1986. We concur with the changes in accounting.

Price Waterhouse

Price Waterhouse
400 South Hope Street
Los Angeles, California
September 29, 1989

QUARTERLY INFORMATION (UNAUDITED)

1989 (Fifty-two weeks ended July 29, 1989)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(In millions, except per share data)				
Sales	$636.7	$930.7	$595.4	$624.6	$2,787.4
Cost of goods sold, including occupancy and buying costs	450.3	674.7	423.5	452.7	2,001.2
Selling, general, and administrative expenses	156.2	179.0	136.0	136.2	607.4
Nonrecurring costs of buying office closure				6.0	6.0
Earnings from operations before interest expense and income taxes	30.2	77.0	35.9	29.7	172.8
Interest expense	36.9	40.4	41.3	41.8	160.4
Earnings (loss) from operations before income taxes	(6.7)	36.6	(5.4)	(12.1)	12.4
Income taxes	(2.7)	14.7	(2.2)	(4.8)	5.0
Earnings (loss) from operations	(4.0)	21.9	(3.2)	(7.3)	7.4
Extraordinary costs		(8.3)		(.9)	(9.2)
Change in accounting	15.3				15.3
Net earnings (loss)	$ 11.3	$ 13.6	$ (3.2)	$ (8.2)	$ 13.5
Earnings (loss) per common share					
Operations	$ (.18)	$ 1.01	$ (.15)	$ (.35)	$ .34
Extraordinary costs		(.38)		(.04)	(.42)
Change in accounting	.70				.70
	$ .52	$ .63	$ (.15)	$ (.39)	$ .62

1988 (Fifty-two weeks ended July 30, 1988)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(In millions, except per share data)				
Sales	$610.6	$865.9	$546.1	$594.5	$2,617.1
Cost of goods sold, including occupancy and buying costs	433.2	628.5	382.8	435.1	1,879.6
Selling, general, and administrative expenses	148.3	167.3	135.0	137.3	587.9
Gain on sale of shopping center interest				30.0	30.0
Costs of operational and facility realignment programs				28.5	28.5
Earnings from operations before interest expense and income taxes	29.1	70.1	28.3	23.6	151.1
Interest expense	28.1	36.1	35.6	35.8	135.6
Earnings (loss) from operations before income taxes	1.0	34.0	(7.3)	(12.2)	15.5
Income taxes	.4	13.6	(2.9)	(4.9)	6.2
Earnings (loss) from operations	.6	20.4	(4.4)	(7.3)	9.3
Extraordinary costs				(1.7)	(1.7)
Change in accounting	10.1				10.1
Net earnings (loss)	$ 10.7	$ 20.4	$ (4.4)	$ (9.0)	$ 17.7
Earnings (loss) per common share					
Operations	$ (.06)	$ .94	$ (.21)	$ (.35)	$ .33
Extraordinary costs				(.08)	(.08)
Change in accounting	.46				.47
	$ .40	$ .94	$ (.21)	$ (.43)	$ .72

Closing Market Price Ranges of Common Stock	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1989 (52 weeks ended July 29, 1989)	$10 1/8 – 8 7/8	$ 9 3/8 – 7 3/4	$ 9 1/8 – 8 1/8	$14 1/2 – 9	$14 1/2 – 7 3/4
1988 (46 weeks ended July 30, 1988)[1]	$15 1/4 – 6 7/8	$10 1/2 – 7	$12 – 9 1/8	$10 3/4 – 9	$15 1/4 – 6 7/8
1988 (6 weeks ended September 12, 1987)[1]	$77 – 69	$	$	$	$77 – 69

The New York Stock Exchange is the principal market on which the Common Stock is traded.

(1) The Common Stock of the Company traded at a pre-restructuring price up to and including the week ended September 12, 1987. Shareholders of record as of September 8, 1987, subject to certain election procedures, retained their Common Stock of the Company and also received $17 in cash and one share of The Neiman Marcus Group for each share of Company Common Stock held.

Five Year Financial Summary

(Dollar amounts in thousands except per share data)	*1989*[2]	*1988*[3]	*1987*[1]	*1986*[2]	*1985*[2]	*1984*[1]
For the Year						
Sales	$2,787,393	$2,617,143	$1,164,338	$2,995,977	$2,889,950	$2,749,910
Percent increase from prior year	6.5	.7[8]	5.8[7]	3.7	5.1	19.3
Cost of goods sold, including occupancy and buying costs	2,001,188	1,879,664	919,764	2,168,653	2,123,185	2,057,170
Selling, general, and administrative expenses	607,441	587,869	349,185	685,680	660,346	618,717
Nonrecurring (income) expense[4]	6,000	(1,500)	42,850	27,200		7,100
Earnings (loss) from continuing operations before interest expense and income taxes	172,764	151,110	(147,461)	114,444	106,419	66,923
Interest expense	160,344	135,600	28,134	82,915	91,203	86,209
Earnings (loss) from continuing operations before income taxes	12,420	15,510	(175,595)	31,529	15,216	(19,286)
Income taxes	5,000	6,200	(68,300)	26,500	(3,000)	(15,900)
Earnings (loss) from continuing operations	7,420	9,310	(107,295)	5,029	18,216	(3,386)
Discontinued operations, net of income taxes[5]			(63,578)	42,586	29,809	93,056
Extraordinary costs and changes in accounting[6]	6,050	8,350		(43,401)		
Net earnings (loss)	$ 13,470	$ 17,660	$ (170,873)	$ 4,214	$ 48,025	$ 89,670
Cash dividends	$	$	2,055	$ 21,155	$ 54,255	$ 53,638	$ 50,129
Per Common Share						
Earnings (loss) from continuing operations	.34	$ .33	$ (6.06)	$ (1.23)	$ (.60)	$ (1.34)
Cash dividends			.305	1.22	1.22	1.22

(Dollar amounts in thousands)	*1989*	*1988*	*1987*	*1986*	*1985*	*1984*
At Year End						
Accounts and other receivables, net (including accounts sold)	$ 746,305	$ 473,826	$ 546,819	$ 520,696	$ 656,644	$ 678,672
Merchandise inventories	562,514	536,656	432,866	497,924	550,239	497,499
Owned property and equipment, net	502,458	472,658	411,905	440,213	480,847	436,707
Leased property under capital leases, net	58,518	63,003	90,178	96,879	108,965	115,145
Total assets	1,988,365	1,671,622	1,922,086	1,905,807	2,116,410	2,012,704
Receivables based financing	652,432	351,000	149,000	191,000	261,000	286,000
Other long-term debt	878,421	826,248	620,820	336,452	309,088	272,782
Capital lease obligations	78,244	83,168	112,042	119,783	135,033	140,656
Redeemable preferred stock			300,000	300,000	300,000	300,000
Common stock and other shareholders' equity	(211,617)	(230,191)	145,772	324,207	359,354	348,166
Common shares outstanding (in thousands)	23,060	22,592	20,367	20,042	19,559	19,067
Common shareholders	21,761	20,984	16,211	9,951	12,205	10,692
Employees	37,000	37,000	37,000	37,000	45,000	45,000

(1) Twenty-six weeks.
(2) Fifty-two weeks.
(3) Fifty-three weeks.
(4) Includes costs of buying office closure of $6.0 million in 1989, gain on sale of shopping center interest of $30.0 million in 1988, costs for operational and facility realignment programs of $28.5 million in 1988 and $15.7 million in 1987, loss on sale of John Wanamaker of $4.0 million in 1987 and $2.2 million in 1986, costs relating to the restructuring program of $23.1 million in 1987 and $25.0 million in 1986, and tender offer costs of $7.1 million in 1984.
(5) Includes gain on sale of Waldenbooks of $63.0 million, net of income taxes, in 1984.
(6) Includes income from changes in accounting for income taxes of $15.3 million in 1989 and for capitalization of certain inventory costs of $10.1 million in 1988, costs relating to early retirements of debt of $9.2 million in 1989, $1.7 million in 1988 and $29.3 million in 1986, and charge for change in accounting for computer software development costs of $14.1 million in 1986.
(7) Sales increase on a comparative six month basis, excluding from the prior year, sales of John Wanamaker.
(8) Sales increase on a comparative twelve month basis, excluding from the prior year, sales of John Wanamaker and two Broadway–Southwest stores, which were sold.

Store Square Footage Report

	1989	1988	1987	1986	1985	1984
The Broadway-Southern California						
Number	43	43	43	43	41	40
Store space	7,459	7,459	7,459	7,459	7,101	6,971
The Broadway-Southwest						
Number	11	11	11	13	12	10
Store space	1,744	1,744	1,744	2,012	1,877	1,609
Emporium						
Number	22	22	22	22	22	22
Store space	5,260	5,260	5,260	5,268	5,246	5,246
Thalhimers						
Number	25	24	24	24	25	25
Store space	2,765	2,624	2,637	2,637	2,588	2,445
Weinstocks						
Number	12	12	12	12	12	12
Store space	1,935	1,935	1,935	1,935	1,935	1,935
Total Department Stores						
Number	113	112	112	114	112	109
Store space	19,163	19,022	19,035	19,311	18,747	18,206

Information as of year end. Gross store space in thousands of square feet.

Caroline Leonetti Ahmanson
Chairman of the Board of Caroline Leonetti Ltd.
Director since 1987. (3,4,5)

Robert O. Anderson
President and Chief Executive Officer of
Pauley Petroleum Inc.
Director since 1975. (4)

Norman Barker, Jr.
Former Chairman of the Board of
First Interstate Bank of California and
Vice Chairman of First Interstate Bancorp.
Director since 1970. (1,2,3)

Waldo H. Burnside
President and Chief Operating Officer of
Carter Hawley Hale Stores, Inc.
Director since 1980. (1)

Edward W. Carter
Chairman of the Board Emeritus of
Carter Hawley Hale Stores, Inc.
Director since 1946. (1)

Myron Du Bain
Chairman of the Board of SRI International.
Director since 1987. (2,4,5)

Walter B. Gerken
Chairman of the Executive Committee of
Pacific Mutual Life Insurance Company.
Director since 1977. (1,3,4,5)

Prentis C. Hale
Former Chairman of the Board of
Carter Hawley Hale Stores, Inc.
Director since 1949. (5)

Philip M. Hawley
Chairman of the Board and Chief Executive Officer of
Carter Hawley Hale Stores, Inc.
Director since 1970. (1)

Harold J. Haynes
Senior Counselor to the Bechtel Group, Inc.
Director since 1977. (1,2,3,4)

Leland C. McGraw
Vice President, Finance of
Chevron Corporation
Director since 1989.

Donn B. Miller
Partner in the Los Angeles-based law firm of
O'Melveny & Myers.
Director since 1974. (1)

Sidney R. Petersen
Retired Chairman of the Board and
Chief Executive Officer of Getty Oil Company
Director since 1989.

Dennis C. Stanfill
President of Stanfill, Bowen & Co., Inc.
Director since 1987. (1,2,3)

William B. Thalhimer, Jr.
Chairman of the Board of Thalhimer Brothers, Inc.,
a subsidiary of Carter Hawley Hale Stores, Inc.
Director since 1978. (1,5)

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Nominating Committee
(5) Public Policy Committee

Corporate Officers

Philip M. Hawley	Chairman of the Board & Chief Executive Officer
Waldo H. Burnside	President & Chief Operating Officer
Loyd E. Ellis	Executive Vice President
John M. Gailys	Executive Vice President & Chief Financial Officer
Martin M. Kalkstein	Executive Vice President
Paul E. Chevalier	Senior Vice President, Employee Relations
Theodore J. Cotti	Senior Vice President, Human Resource Development
Brian L. Fleming	Senior Vice President, Accounting & Taxes
Edwin J. Holman	Senior Vice President, Operations
J. Scott Meyer	Senior Vice President, Store Planning & Construction
Larry G. Petersen	Senior Vice President, Planning
Thomas E. Brown	Vice President, Credit
D. Clair Brumbaugh	Vice President, Income Tax
John F. Busey	Vice President & Treasurer
Arthur G. Coons	Vice President, Marketing
William E. Dombrowski	Vice President, Corporate Affairs
Robert J. Gilmartin	Vice President, Real Estate
Serena S. Kokjer	Vice President, Management Information Services
Patricia M. Paolilli	Vice President, Executive Development
Gary J. Peterson	Vice President, Distribution
E. Harlin Smith	Vice President, Investor Relations
Dale G. Thune	Vice President, Property & Sales Tax
Dwight L. Totten	Vice President, Operations Support
Robert L. Turner	Vice President, Construction
Walter W. Tuthill	Vice President, General Auditor
Edward A. Wolfe	Vice President, Loss Prevention
James L. Vandeberg	Secretary & Corporate Counsel

Division Management

The Broadway-Southern California
H. Michael Hecht, Chairman & CEO
Richard F. Clayton, President

The Broadway-Southwest
Thomas E. Dokter, President & CEO

Emporium
Stewart M. Kasen, President & CEO
Jack L. Richardson, Chairman

Thalhimers
William B. Thalhimer, Jr., Chairman
Robert J. Rieland, President & CEO

Weinstocks
Cheryl Nido Turpin, Chairman & CEO
Gregory C. Crews, President

Information Services
R. Vincent Conant, Chairman & CEO
Robert M. Menar, President

Executive Offices	444 South Flower Street, Los Angeles, California 90071, Telephone: (213) 620-0150
Common Stock	Symbol: CHH, New York Stock Exchange, Pacific Stock Exchange, London Stock Exchange
Transfer Agent	Security Pacific National Bank, Corporate Services Division, 2-70, P.O. Box 60228, Terminal Annex, Los Angeles, California 90060
Independent Accountants	Price Waterhouse
General Counsel	O'Melveny & Myers, Los Angeles
Form 10-K	A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available upon request to: The Secretary, Carter Hawley Hale Stores, Inc., 444 South Flower Street, Los Angeles, California 90071.

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